

Road Commission of Macomb County

Financial Report
September 30, 2008

Road Commission of Macomb County

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Independent Auditor's Report

To the Board of County Road Commissioners
Road Commission of Macomb County

We have audited the accompanying financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County (a component unit of Macomb County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2008, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the Road Fund (the Road Commission's only major fund), the aggregate remaining fund information of the Road Commission of Macomb County at September 30, 2008, the respective changes in financial position and cash flows, and the respective budgetary comparison for the Road Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Road Commissioners
Road Commission of Macomb County

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009 on our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read with this report in considering the results of our audit.

Plante & Moran, PLLC

January 7, 2009

Road Commission of Macomb County

Management's Discussion and Analysis

As management of the Road Commission of Macomb County (the "Road Commission"), we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended September 30, 2008.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding of the Road Commission's basic financial statements. These statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The first two components are presented together on the governmental funds balance sheet/statement of net assets and the statement of revenues, expenditures, and changes in fund balances/statement of activities.

Financial Analysis

Net assets enable governmental agencies to determine their overall fiscal position. The Road Commission of Macomb County's net assets increased by less than 1.0 percent from a year ago, increasing from \$757.8 million to \$763.2 million. This increase was due primarily to an increase in the Road Commission's cash and investments. Several large construction projects that were budgeted in fiscal year 2008 have been carried forward to fiscal year 2009. As a result, cash and investments were higher than anticipated. Although this increased the cash and investments in fiscal year 2008, these funds are earmarked for the delayed construction projects and the funds will be used in fiscal year 2009. In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of September 30, 2008 to the prior year.

Condensed Statement of Net Assets

	2008	2007
Assets		
Current assets	\$ 68.6	\$ 63.8
Capital assets	706.9	707.1
Total assets	775.5	770.9
Liabilities		
Current liabilities	9.9	10.7
Long-term liabilities outstanding	2.4	2.4
Total liabilities	12.3	13.1
Net Assets		
Invested in capital assets	706.9	707.1
Unrestricted	56.3	50.7
Total net assets	<u>\$ 763.2</u>	<u>\$ 757.8</u>

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Net capital assets decreased from \$707.1 million in fiscal year 2007 to \$706.9 million in fiscal year 2008. This decrease was a result of new infrastructure being added at a cost that was less than the depreciation on prior year's infrastructure. Unrestricted net assets, which finance the day-to-day operations of road activity and the future growth of Macomb County for infrastructure, were \$56.3 million at September 30, 2008. This amount increased approximately 11.0 percent from last year's unrestricted net assets of \$50.7 million.

The following table shows the changes in net assets (in millions of dollars) as of September 30, 2008 and the prior year:

Condensed Statement of Activities

	2008	2007
Revenue		
State aid	\$ 38.3	\$ 39.4
Federal sources	13.0	9.9
Local and other sources	15.5	18.4
Land and roads released from developers	7.3	8.1
Total revenue	74.1	75.8
Expenses		
Maintenance and equipment	15.2	16.4
Administrative	17.3	18.8
Depreciation	36.2	35.3
Total expenses	68.7	70.5
Increase in Net Assets	\$ 5.4	\$ 5.3

Statement of Activities

The Road Commission's total revenue decreased slightly from the prior year. This decrease was seen in all line items other than federal sources. Expenses decreased approximately \$2.2 million over last year. This decrease was seen in the maintenance and equipment line as well as the administrative line. Overall, net assets increased \$5.4 million from the prior year.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Road Fund Budgetary Highlights

Prior to beginning each new fiscal year, the Road Commission of Macomb County's budget is prepared based upon certain assumptions and facts available at that time. Throughout the year, the Road Commission's board amends the budget to reflect changes in these original assumptions, facts, and/or economic conditions that were unknown at the time the original budget was adopted. In addition, the board reviews and authorizes expenditures and capital equipment purchases throughout the year. The Road Commission amended its 2008 budget on several occasions during the year to reflect changes in equipment expense, maintenance expense, and status changes in budgeted construction projects. Final expenditures were \$26.3 million lower than the original budget due primarily to changes in construction projects and cost-saving measures that were implemented throughout the year. The Road Commission of Macomb County has made great efforts to reduce staffing and benefit costs through attrition. As a result, salaries and benefits were both lower in fiscal year 2008 when compared to fiscal year 2007. The actual revenues for fiscal year 2008 were also lower than the budgeted amount. With several construction projects being rolled over to fiscal year 2009, the revenue sharing on these projects will also be recognized in 2009. The Road Commission secured construction contracts of approximately \$15.3 million, and actual expenditures on these contracts were less than what was budgeted.

Capital Assets

The Road Commission had \$706.9 million in net capital assets at the end of the fiscal year. This amount represents a net decrease of \$200 thousand from the previous year. The Road Commission added over \$36 million to its investment in capital assets during the current year, including approximately \$30.4 million of infrastructure additions. The recorded amount of the infrastructure assets net of depreciation contained in this report is \$499.3 million and \$502.8 million for fiscal years 2008 and 2007, respectively. The infrastructure will continue to be the largest asset class.

Economic Factors and Next Year's Budget

Reductions in revenue sharing will directly affect the local units of government. This will, in turn, affect the amount of funds the local units will have available to participate in road projects. In addition, the Road Commission of Macomb County experienced a decrease of over \$1.3 million in Michigan Transportation Funds (MTF) as compared to fiscal year 2007. This represents a 3.5 percent decrease in funding. MTF dollars are the main source of income to cover operating expenses of the Road Commission including all road maintenance expenses and the Road Commission's share of construction expense. Without adequate increases in MTF revenue and revenue sharing, the Road Commission of Macomb County has diminishing resources for road improvements and maintenance activities. This decrease will directly impact the number of road projects that can be undertaken as well as the level of maintenance work the Road Commission of Macomb County can provide. The Road Commission continues to face challenging financial times. Revenues and expenditures will be monitored throughout the year to assure fiscal responsibility.

Road Commission of Macomb County

Management's Discussion and Analysis (Continued)

Contacting the Road Commission's Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Road Commission of Macomb County, Michelle M. Mykytiak, finance director. For more specific information regarding construction projects, contact Robert Hoepfner, county highway engineer.

Road Commission of Macomb County

		Nonmajor Fund	Total
	Major Fund -	Capital	Governmental
	Road	Projects	Funds
Assets			
Cash and investments (Note 4)	\$ 40,684,866	\$ 3,470,061	\$ 44,154,927
Receivables:			
State of Michigan	8,042,688	-	8,042,688
Construction accounts receivable	547,738	-	547,738
Accrued interest receivable	379,045	-	379,045
Other	497,237	-	497,237
Inventory	3,982,355	-	3,982,355
Deposits	187,787	-	187,787
Surplus properties	129,539	-	129,539
Prepaid costs and other	837,370	-	837,370
Capital assets (Note 5):			
Assets not being depreciated	-	-	-
Assets being depreciated - Net	-	-	-
Total assets	<u>\$ 55,288,625</u>	<u>\$ 3,470,061</u>	<u>\$ 58,758,686</u>
Liabilities and Fund Balances			
Liabilities			
Current liabilities:			
Accounts payable	\$ 3,931,991	\$ -	\$ 3,931,991
Advances	4,183,244	-	4,183,244
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation (Note 6)	2,064	-	2,064
Accrued liabilities and other	1,971,678	-	1,971,678
Noncurrent liabilities:			
Provision for uninsured losses (Note 6)	-	-	-
Accrued workers' compensation liabilities (Note 6)	-	-	-
Net OPEB obligation (Note 7)	-	-	-
Accrued sick and vacation	-	-	-
Total liabilities	10,088,977	-	10,088,977
Fund Balances - Unreserved - Designated (Note 9)	45,199,648	3,470,061	48,669,709
Total liabilities and fund balances	<u>\$ 55,288,625</u>	<u>\$ 3,470,061</u>	<u>\$ 58,758,686</u>
Net Assets			
Invested in capital assets			
Unrestricted			
Total net assets			

Governmental Funds Balance Sheet/Statement of Net Assets
September 30, 2008

Adjustments (Note 2)	Statement of Net Assets
\$ 9,825,821	\$ 53,980,748
-	8,042,688
-	547,738
-	379,045
-	497,237
-	3,982,355
-	187,787
-	129,539
5,256	842,626
184,603,914	184,603,914
<u>522,280,006</u>	<u>522,280,006</u>
716,714,997	775,473,683
-	3,931,991
-	4,183,244
32,614	32,614
-	2,064
(287,603)	1,684,075
77,790	77,790
38,464	38,464
1,021,017	1,021,017
<u>1,305,389</u>	<u>1,305,389</u>
2,187,671	12,276,648
<u>(48,669,709)</u>	<u>-</u>
<u>(46,482,038)</u>	<u>12,276,648</u>
706,883,920	706,883,920
<u>56,313,115</u>	<u>56,313,115</u>
<u>\$ 763,197,035</u>	<u>\$ 763,197,035</u>

Road Commission of Macomb County

		Nonmajor Fund	
	Major Fund - Road	Capital Projects	Total Governmental Funds
Revenue			
Licenses, permits, and fees	\$ 613,321	\$ -	\$ 613,321
Federal aid for construction	13,028,982	-	13,028,982
State revenue:			
Michigan Transportation Fund	35,572,095	-	35,572,095
Build Michigan Fund	1,423,809	-	1,423,809
State Critical Bridge	1,335,958	-	1,335,958
Contributions from local units:			
Cities	887,460	-	887,460
Townships	1,724,383	-	1,724,383
County	731,040	-	731,040
Charges for services:			
State trunkline maintenance	6,305,251	-	6,305,251
State nonmaintenance	756,467	-	756,467
Other revenue:			
Cities, townships, and other	2,005,006	-	2,005,006
Inspections	122,715	-	122,715
Land and roads released from developers	-	-	-
Operating income from internal service fund	-	-	-
Interest	1,566,268	135,632	1,701,900
Sale of land, property, rental, and other	215,232	-	215,232
Total revenue	66,287,987	135,632	66,423,619
Expenditures/Expenses - Current			
Primary road	26,083,116	-	26,083,116
Local road	8,245,399	-	8,245,399
Primary bridges	974,904	-	974,904
Local bridges	1,341,606	-	1,341,606
Nonroad projects	1,250,916	-	1,250,916
State maintenance	4,042,189	-	4,042,189
State nonmaintenance	606,680	-	606,680
Equipment rental credits - Net of equipment expense, excluding fringe	(2,777,106)	-	(2,777,106)
Engineering	1,135,540	-	1,135,540
Administrative	(87,644)	-	(87,644)
Inspections and other	1,047,339	-	1,047,339
Distributive fringe benefits	15,134,780	-	15,134,780
Other distributive expense	4,891,483	-	4,891,483
Capital outlay - Net of depreciation credits	(905,696)	-	(905,696)
Depreciation expense	-	-	-
Total expenditures/expenses	60,983,506	-	60,983,506
Excess of Revenues Over Expenditures/ Change in Net Assets	5,304,481	135,632	5,440,113
Other Financing Sources (Uses) - Transfers	85,742	(85,742)	-
Excess of Revenue and Other Financing Sources Over Expenditures and Other Uses	5,390,223	49,890	5,440,113
Fund Balances/Net Assets - October 1, 2007	39,809,425	3,420,171	43,229,596
Fund Balances/Net Assets - September 30, 2008	\$ 45,199,648	\$ 3,470,061	\$ 48,669,709

**Statement of Governmental Revenues, Expenditures, and Changes in
Fund Balances/Statement of Activities
Year Ended September 30, 2008**

Adjustments (Note 2)	Statement of Activities
\$ -	\$ 613,321
(31,813)	12,997,169
-	35,572,095
-	1,423,809
-	1,335,958
(546)	886,914
41,509	1,765,892
(2,600)	728,440
-	6,305,251
-	756,467
-	2,005,006
-	122,715
7,284,613	7,284,613
84,373	84,373
384,574	2,086,474
1,905	217,137
7,762,015	74,185,634
(18,361,396)	7,721,720
(1,519,518)	6,725,881
(974,904)	-
(1,341,606)	-
-	1,250,916
-	4,042,189
-	606,680
-	(2,777,106)
-	1,135,540
-	(87,644)
-	1,047,339
(1,295,379)	13,839,401
(3,461,024)	1,430,459
(1,490,183)	(2,395,879)
36,275,395	36,275,395
7,831,385	68,814,891
(69,370)	5,370,743
-	-
(69,370)	5,370,743
714,596,696	757,826,292
\$ 714,527,326	\$ 763,197,035

Road Commission of Macomb County

Road Fund Budgetary Comparison Schedule Year Ended September 30, 2008

	Original Budget	Amended Budget	Actual
Revenue			
Licenses, permits, and fees	\$ 788,500	\$ 627,360	\$ 613,321
Federal aid for construction	24,832,653	12,042,659	13,028,982
State revenue:			
Michigan Transportation Fund	35,710,000	35,710,000	35,572,095
Build Michigan Fund	1,296,000	1,296,000	1,423,809
State Critical Bridge	2,612,500	1,113,255	1,335,958
Contributions from local units:			
Cities	267,189	721,997	887,460
Townships	593,050	1,236,712	1,724,383
County	2,854,750	732,500	731,040
Charges for services:			
State trunkline maintenance	5,790,152	5,790,152	6,305,251
State nonmaintenance	600,000	165,606	756,467
Other revenue:			
Cities, townships, and other	1,376,267	1,614,621	2,005,006
Inspections	500,000	221,738	122,715
Interest	1,525,508	1,525,508	1,566,268
Sale of land, property, rental, and other	186,841	297,666	215,232
Total revenue	78,933,410	63,095,774	66,287,987
Expenditures - Current			
Primary road	37,727,535	25,168,041	26,083,116
Local road	7,486,230	8,956,073	8,170,876
Primary bridges	9,172,500	540,694	974,904
Local bridges	2,200,000	1,369,710	1,341,606
Local drain	105,000	105,000	74,523
Primary drain	105,000	50,000	-
Nonroad projects	-	1,500,000	1,250,916
State maintenance	3,869,779	3,869,779	4,042,189
State nonmaintenance	626,000	626,000	606,680
Equipment rental credits - Net of equipment expense, excluding fringe	(1,874,450)	(2,077,090)	(2,777,106)
Engineering	930,000	1,200,000	1,135,540
Administrative	1,371,779	871,779	(87,644)
Inspections and other	1,808,200	1,500,000	1,047,339
Distributive fringe benefits	18,891,500	16,685,088	15,134,780
Other distributive expense	5,850,795	5,562,328	4,891,483
Capital outlay - Net of depreciation credits	(945,842)	(633,229)	(905,696)
Total expenditures	87,324,026	65,294,173	60,983,506
Excess of Expenditures (Under) Over Revenue	(8,390,616)	(2,198,399)	5,304,481
Other Financing Sources - Transfers	-	-	85,742
Excess of Revenue and Other Financing Sources (Under) Over Expenditures	(8,390,616)	(2,198,399)	5,390,223
Fund Balance - October 1, 2007	39,809,425	39,809,425	39,809,425
Fund Balance - September 30, 2008	<u>\$ 31,418,809</u>	<u>\$ 37,611,026</u>	<u>\$ 45,199,648</u>

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Net Assets September 30, 2008

Assets - Current

Cash and investments (Note 4)	\$ 9,825,821
Prepaid costs and other assets	<u>5,256</u>
Total assets	9,831,077

Liabilities

Current liabilities - Provision for uninsured losses (Note 6)	32,614
Noncurrent liabilities - Provision for uninsured losses (Note 6)	<u>77,790</u>
Total liabilities	<u>110,404</u>

Net Assets - Unrestricted	<u><u>\$ 9,720,673</u></u>
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Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended September 30, 2008

Operating Expenses

Settlements, premiums, and other	\$ 181,105
Change in allowance for claims incurred but not reported	<u>(265,478)</u>

Operating Income 84,373

Nonoperating Revenues - Interest income 384,574

Increase in Net Assets 468,947

Net Assets - Beginning of year 9,251,726

Net Assets - End of year \$ 9,720,673

Road Commission of Macomb County

Proprietary Fund - Internal Service Fund General Liability Self-insurance Fund Statement of Cash Flows Year Ended September 30, 2008

Cash Flows from Operating Activities - Claims, settlements, premiums, and other items paid	\$ (181,106)
Cash Flows from Investing Activities	
Interest received on investments	384,574
Net proceeds and purchases of investment securities	<u>(203,468)</u>
Net cash provided by investing activities	<u>181,106</u>
Net Change in Cash and Cash Equivalents	-
Cash and Cash Equivalents - Beginning of year	<u>-</u>
Cash and Cash Equivalents - End of year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 84,373
Adjustments to reconcile operating income to net cash from operating activities - Change in provision for uninsured losses and liabilities	<u>(265,479)</u>
Net cash used in operating activities	<u><u>\$ (181,106)</u></u>
Reconciliation to Balance Sheet	
Cash and investments recorded on balance sheet/statement of net assets	\$ 9,825,821
Less fixed-term investments	<u>(9,825,821)</u>
Total	<u><u>\$ -</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended September 30, 2008, there were no noncash investing, capital, or financing activities.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note I - Significant Accounting Policies

The Road Commission of the County of Macomb, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in Macomb County. The Road Commission's financial statements will be included in the basic financial statements of the County of Macomb, Michigan as a discretely presented component unit. Transactions between the Road Commission and the County of Macomb, Michigan primarily relate to the cost sharing of Road Commission administered construction projects, which were not significant during the year.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Road Commission is governed by an appointed three-member board of commissioners. As required by accounting principles generally accepted in the United States of America, these financial statements present the Road Commission of Macomb County. In accordance with accounting principles generally accepted in the United States of America, there are no component units included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. For the most part, the effect of interfund activity has been removed from these statements. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and are included in the government-wide financial statements. Major and nonmajor individual governmental funds are reported as separate columns. Separate financial statements are provided for the proprietary fund.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Amounts collected beyond this time period are recorded as deferred revenue. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Billings on the contracts include a provision for fringe benefits and overhead. No profit is recognized on these contracts. Interest associated with the current fiscal period is considered susceptible to accrual and has been recognized as revenue of the current fiscal period. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditures for construction and work orders are recognized as the work progresses. Amounts billed to other governmental units for participation in construction or for work orders include equipment usage charges based on predetermined rates. These rates are designed to cover direct equipment operating costs, which include depreciation recorded within the government-wide statements. However, expenditures related to compensated absences and claims and judgments, accounted for within the Road Fund, are recorded only when payment is due.

The Road Fund is the Road Commission's only major governmental fund and is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note I - Significant Accounting Policies (Continued)

Additionally, the Road Commission reports the following fund type:

Internal Service Fund - The Internal Service Fund is a proprietary fund type and accounts for risk management services provided to the Road Fund on a cost-reimbursement basis.

Proprietary funds distinguish operating revenue and operating expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash Equivalents - For the purpose of the statement of cash flows, the Road Commission does not include fixed-term investments (such as certificates of deposit) as cash equivalents. Only cash items (cash on hand, checking accounts, and savings accounts) are included.

Investments - Fixed term investments are reported at fair value, which approximates cost due to maturity dates.

Inventory and Prepaid Costs - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Surplus Properties - Surplus properties are recorded at the lower of acquisition cost or market.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Road and other equipment	5-25 years
Infrastructure	8-50 years

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. The government-wide statement of net assets accrues all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when time is taken off or the employee is terminated).

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report designations of fund balance for amounts that represent tentative management plans that are subject to change.

Other accounting policies are disclosed in other notes to the financial statements.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 48,669,709
Capital assets used in governmental activities are not financial resources and are not reported in the funds	706,883,920
State and local receivables are not available to pay for current year expenditures and are therefore deferred in the governmental funds	287,603
Noncurrent compensated absences and provisions for workers' compensation uninsured losses are not reported in the funds	(1,343,853)
Other long-term liabilities, such as net OPEB obligations, do not present a claim on current financial resources and are not reported as fund liabilities	(1,021,017)
Internal Service Funds are included as governmental activities	<u>9,720,673</u>
Government-wide net assets	<u>\$ 763,197,035</u>

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total government funds	\$ 5,440,113
Governmental funds report capital outlay as an expenditure; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay expenditures	28,754,393
Depreciation expense	(36,275,395)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	8,455
In the statement of activities, land and roads released from developers are reported as revenue at the fair market value and the fixed asset is capitalized	7,284,613
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities and reported in the fund statements when they come due for payment	60,655
Changes in other liabilities, such as net OPEB obligations, reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements	(371,038)
Internal Service Funds are also included as governmental activities	<u>468,947</u>
Change in net assets of governmental activities	<u>\$ 5,370,743</u>

Note 3 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the finance and MIS director and adopted by the Board of Road Commissioners; subsequent amendments are approved by the Board of Road Commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at September 30, 2008 has not been calculated. The budget was amended in a legally permissible manner.

Road Commission of Macomb County

**Notes to Financial Statements
September 30, 2008**

Note 3 - Stewardship, Compliance, and Accountability (Continued)

The Road Fund budget has been adopted on an activity basis and prepared in accordance with accounting principles generally accepted in the United States of America; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no significant budget variances in the Road Fund. The budgetary comparison schedule as presented on page 12 is shown on a condensed basis from the budget as formally adopted. Copies of the adopted budget are available for comparison at the Road Commission offices.

Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Road Commission is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Road Commission has adopted an investment policy in accordance with the statutory authority.

The Road Commission has designated 17 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in certificates of deposit, U.S. Treasury bills, and bank investment pools, but not the remainder of state statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 4 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission has adopted a deposit policy for custodial credit risk which limits the Road Commission's investment in an individual institution to no more than 1 percent of the institution's equity and no more than 15 percent of the Road Commission's total deposit balance. At year end, \$50,668,959 of the Road Commission's deposit balance (certificates of deposit, checking, and savings accounts) of \$54,128,959 was uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated - Land	\$ 180,521,635	\$ 4,082,279	\$ -	\$ 184,603,914
Capital assets being depreciated:				
Land improvements	1,319,384	97,183	-	1,416,567
Buildings	25,157,021	28,110	-	25,185,131
Road equipment	23,652,865	1,093,251	803,245	23,942,871
Other equipment	3,234,524	276,386	7,965	3,502,945
Infrastructure	860,735,535	30,466,544	-	891,202,079
Subtotal	914,099,329	31,961,474	811,210	945,249,593
Less accumulated depreciation for:				
Land improvements	814,474	67,045	-	881,519
Buildings	6,028,158	503,169	-	6,531,327
Road equipment	20,339,066	1,511,185	800,336	21,049,915
Other equipment	2,363,553	274,509	6,126	2,631,936
Infrastructure	357,955,403	33,919,487	-	391,874,890
Subtotal	387,500,654	36,275,395	806,462	422,969,587
Net capital assets being depreciated	526,598,675	(4,313,921)	4,748	522,280,006
Net capital assets	\$ 707,120,310	\$ (231,642)	\$ 4,748	\$ 706,883,920

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 5 - Capital Assets (Continued)

Construction Commitments - The Road Commission has 20 significant active projects at year end totaling \$12,569,789. The Road Commission's cumulative expenditures and remaining commitment with these contractors as of September 30, 2008 are \$8,093,451 and \$4,476,318, respectively.

Note 6 - Risk Management

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits provided to employees but is self-funded for general liability incidents and workers' compensation claims up to a retention amount, at which time the Road Commission's reinsurance begins. Retention amounts during the year ended September 30, 2008 were \$5,000,000 and \$325,000 for general liability and workers' compensation, respectively. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

General Liability Claims

Beginning January 17, 1993, the Road Commission assumes costs for general liability claims, including all cost associated with those claims, within certain limits. The Road Commission is liable for losses up to a retention amount per claim and is liable for losses in excess of the maximum insurance coverage.

The Road Commission estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The Road Commission has been named defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. It is the opinion of legal counsel and management that reasonable estimates of the Road Commission's liability for these matters have been recorded in the General Liability Self-insurance Fund as outlined below.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 6 - Risk Management (Continued)

Changes in the estimated recorded liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 375,883	\$ 1,627,623
Decrease in estimated claims incurred, including changes in estimates	(252,039)	(1,222,013)
Claim payments	(13,440)	(29,727)
Estimated liability - End of year	<u>\$ 110,404</u>	<u>\$ 375,883</u>

There are also certain property and employment-related lawsuits currently pending against the Road Commission claiming amounts for damages and relief without stated limitations. These lawsuits have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, which may result from the resolution of these cases. Hence, no provision has been made in the financial statements as of September 30, 2008 for any ultimate liability related to these matters in excess of the estimated liability discussed above. However, in the opinion of Road Commission management and legal counsel, the probable additional exposure of the Road Commission for these lawsuits is immaterial to the financial statements.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government in recognizing pollution remediation expenses and obligations to address current or potential detrimental effects of pollution. The new pronouncement is effective for the year ending September 30, 2009. Management is currently assessing the impact of this new accounting standard on the Road Commission's financial statements for future reporting periods.

Road Commission of Macomb County

Notes to Financial Statements
September 30, 2008

Note 6 - Risk Management (Continued)

Workers' Compensation Claims

The Road Commission assumes costs for workers' compensation claims within certain limits.

The Road Commission estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The current portion of these estimates is recorded in the Road Fund. The government-wide balance sheet/statement of net assets includes the current and long-term portions of these estimates. Changes in the estimated liability for the past two fiscal years were as follows:

	2008	2007
Estimated liability - Beginning of year	\$ 154,035	\$ 337,360
Increase in estimated claims incurred, including changes in estimates	(79,164)	(60,195)
Claim payments	(34,343)	(123,130)
Estimated liability - End of year	<u>\$ 40,528</u>	<u>\$ 154,035</u>

Note 7 - Other Postemployment Benefits

The Commission provides retiree healthcare benefits to eligible employees and their spouses through the Road Commission of Macomb County Retiree Health Care Plan (the "Plan"). This is an agent multiple employer defined benefit plan administered by the Municipal Employees' Retirement System of Michigan (MERS). The benefits are provided under collective bargaining agreements.

The collective bargaining agreements require no contribution from employees. The Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, as shown below, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of Commissioners through annual budget resolutions.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 7 - Other Postemployment Benefits (Continued)

For the year ended September 30, 2008, the Road Commission has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2007. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 6,302,811
Amounts contributed:	
Payments of current premiums	(2,951,272)
Advance funding	<u>(3,000,000)</u>
Increase in net OPEB obligation	351,539
Adjustments for interest and amortization	19,499
OPEB obligation - Beginning of year	<u>649,979</u>
OPEB obligation - End of year	<u>\$ 1,021,017</u>

The annual other postemployment benefits (OPEB) costs, the percentage contributed to the Plan, and the net OPEB obligation for the years ended September 30 were as follows:

	2008	2007
Annual OPEB costs	\$ 6,302,811	\$ 6,147,445
Percentage contributed	94.42%	89.42%
Net OPEB obligation	\$ 1,021,017	\$ 649,979

The funding progress of the Plan as of the most recent valuation date is as follows:

	2007	2006
Valuation as of December 31:		
Actuarial value of assets	\$ 9,621,290	\$ -
Actuarial accrued liability	\$ 87,898,593	\$ 76,651,082
Unfunded AAL	\$ 78,277,303	\$ 76,651,082
Funded ratio	11%	0%
Annual covered payroll	\$ 14,621,336	\$ 15,548,979
Ratio of UAAL to covered payroll	535%	493%

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 7 - Other Postemployment Benefits (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 6 percent after 10 years. Both rates included a 4 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007 was 28 years.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Road Commission contributes to the Macomb County Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The Macomb County Employees' Retirement System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Macomb County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the Macomb County Employees' Retirement System. That report may be obtained by writing to the Retirement Commission at 10 N. Main, Mt. Clemens, Michigan 48043.

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 8 - Defined Benefit Pension Plan (Continued)

Funding Policy

The obligation to contribute to and maintain the Macomb County Employees' Retirement System for these employees was established by negotiation with the Road Commission's competitive bargaining units and requires a contribution from the employees of 3.5 percent of gross wages from all covered employees.

Annual Pension Cost

For the valuation year ended December 31, 2007, the Road Commission's annual pension cost of \$2,665,713 for the plan was equal to the Road Commission's required and actual contribution of \$2,665,713, which was remitted to the County of Macomb. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 5 percent per year, compounded annually and attributable to inflation, (c) additional projected salary increases of up to 5 percent per year, depending on service and attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The remaining UAAL (or overfunding) was amortized by level percentage of payroll contributions over 20 years.

Additional pension plan information for the Road Commission is as follows:

	Fiscal Year Ended September 30					
	2008	2007	2006	2005	2004	2003
Annual pension cost (APC)	\$ 2,310,528	\$ 2,665,713	\$ 2,903,247	\$ 2,008,363	\$ 964,174	\$ 372,158
Percentage of APC contributed	100%	100%	100%	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Valuation Year Ended December 31					
	2007	2006	2005	2004	2003	2002
Actuarial value of assets	\$ 107,036,782	\$ 100,222,610	\$ 93,200,366	\$ 87,876,994	\$ 84,102,585	\$ 85,917,264
Actuarial accrued liability (AAL) (entry age)	\$ 104,826,658	\$ 98,836,355	\$ 97,873,919	\$ 94,783,521	\$ 90,840,389	\$ 85,178,635
(Underfunded) overfunded AAL	\$ 2,210,124	\$ 1,386,255	\$ (4,673,553)	\$ (6,906,527)	\$ (6,737,804)	\$ 738,629
Funded ratio	102.11%	101.40%	95.22%	92.71%	92.58%	100.87%
Covered payroll	\$ 14,621,336	\$ 15,297,108	\$ 15,788,396	\$ 16,363,729	\$ 15,166,250	\$ 14,370,596
UAAL as a percentage of covered payroll	0.00%	0.00%	29.60%	42.21%	44.43%	0.00%

Road Commission of Macomb County

Notes to Financial Statements September 30, 2008

Note 9 - Designated Fund Balance

Fund balances at September 30, 2008 have been designated for the following purposes:

	Major Fund - Road Fund	Nonmajor Fund - Capital Projects Fund
Subsequent year's expenditures	\$ 10,062,124	\$ 229,000
Bridge projects	7,500,000	-
Traffic signal upgrades	5,887,524	-
Salt storage	-	751,000
Pavement management study	800,000	-
Sign inventory	850,000	-
County-wide pavement repair	6,500,000	-
Road widening/congestion relief	12,500,000	-
Administrative site paving and renovation	-	525,000
Service center renovation	-	1,965,061
Guardrail replacement	1,100,000	-
Total	<u>\$ 45,199,648</u>	<u>\$ 3,470,061</u>

Road Commission of Macomb County

**Federal Awards
Supplemental Information
September 30, 2008**

Road Commission of Macomb County

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Independent Auditor's Report

To the Board of Road Commissioners
Road Commission of Macomb County

We have audited the financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County (the "Road Commission") as of and for the year ended September 30, 2008, which collectively comprise the Road Commission of Macomb County's basic financial statements, and have issued our report thereon dated January 7, 2009. Those basic financial statements are the responsibility of the management of the Road Commission of Macomb County. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Road Commission of Macomb County's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 7, 2009

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Road Commissioners
Road Commission of Macomb County

We have audited the financial statements of the governmental activities, the Road Fund (the Road Commission's only major fund), and the aggregate remaining fund information of the Road Commission of Macomb County as of and for the year ended September 30, 2008, which collectively comprise the Road Commission of Macomb County's basic financial statements, and have issued our report thereon dated January 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Road Commission of Macomb County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission of Macomb County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Road Commission of Macomb County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

To the Board of Road Commissioners
Road Commission of Macomb County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Road Commission of Macomb County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Road Commissioners, management, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

January 7, 2009

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Road Commissioners
Road Commission of Macomb County

Compliance

We have audited the compliance of the Road Commission of Macomb County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended September 30, 2008. The major federal program of the Road Commission of Macomb County is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Road Commission of Macomb County's management. Our responsibility is to express an opinion on the Road Commission of Macomb County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Road Commission of Macomb County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Road Commission of Macomb County's compliance with those requirements.

In our opinion, the Road Commission of Macomb County complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

Internal Control Over Compliance

The management of the Road Commission of Macomb County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Road Commission of Macomb County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Road Commission's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-I to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Road Commission of Macomb County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Road Commission of Macomb County's response and, accordingly, we express no opinion on it.

To the Board of Road Commissioners
Road Commission of Macomb County

This report is intended solely for the information and use of the Board of Road Commissioners, management, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Morse, PLLC

January 7, 2009

Road Commission of Macomb County

Schedule of Expenditures of Federal Awards Year Ended September 30, 2008

<u>Federal Agency/Pass-through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation - Federal Highway Administration - Passed through the Michigan Department of Transportation - Highway Planning and Construction Cluster	20.205	\$ 1,330,276	\$ 1,330,276

Road Commission of Macomb County

Note to Schedule of Expenditures of Federal Awards Year Ended September 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Road Commission of Macomb County and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Road Commission of Macomb County

Schedule of Findings and Questioned Costs Year Ended September 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
20.205	U.S. Department of Transportation - Federal Highway Administration - Passed through Michigan Department of Transportation - Highway Planning and Construction Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Road Commission of Macomb County

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2008

Section II - Financial Statement Audit Findings

None.

Section III - Federal Program Audit Findings

Reference Number	Findings
2008-1	<p>Program Name - U.S. Department of Transportation - Federal Highway Administration - Passed through Michigan Department of Transportation - Highway Planning Construction Cluster (CFDA #20.205)</p> <p>Finding Type - Significant deficiency</p> <p>Criteria - The Davis-Bacon Act requires records be kept of employee interviews for work performed by contractors/subcontractors on federally funded projects to verify the rate of pay submitted for reimbursement are the actual rates earned by the employee and are in compliance with prevailing wage rates.</p> <p>Condition and Context - During the audit, we selected a sample of eleven payroll records and noted wage rate interview forms were not retained in three instances within the sample tested.</p> <p>Questioned Costs - None</p> <p>Cause and Effect - There is currently not a system in place to verify that all wage rate interviews have been performed with each of the contractors/subcontractors performing work on federally funded projects.</p> <p>Recommendation - We recommend that a system be established to ensure that wage rate interviews are performed on an annual basis and appropriate records are retained.</p> <p>Views of Responsible Officials - The Commission is aware of the importance of the requirements of the Davis-Bacon Act and will institute a system to ensure wage rate interviews are appropriately performed for federally funded projects. The Commission is also aware of the importance of document retention and will ensure that interview records are properly documented and retained.</p>



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January 7, 2009

To the Board of County Road
Commissioners
Road Commission of Macomb County

We have audited the financial statements of the Road Commission of Macomb County (the "Road Commission") for the year ended September 30, 2008 and have issued our report thereon dated January 7, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Road Commission. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the Road Commission's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the Road Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions regarding our consideration of the Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the Road Commission, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 4, 2008 with Fran Gillet and on November 19, 2008 with Robert Sawicki.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Road Commission are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Road Commission during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The net other postemployment benefit obligation is a significant and sensitive accounting estimate to the plan. Management's estimate of the net other postemployment benefit obligation is based on certain assumptions pertaining to interest rates, inflation rates, employee compensation, and demographics. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes the uncorrected misstatement of the financial statements. Management has determined that its effect is immaterial to the financial statements taken as a whole. We did not propose any other corrections to the financial statements during the course of our auditing procedures.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated January 7, 2009.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Road Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Road Commission, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Road Commission, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Road Commission's auditors.

To the Board of County Road
Commissioners
Road Commission of Macomb County

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January 7, 2009

In addition to the comments and recommendations in this letter, our observations and comments regarding the Road Commission of Macomb County's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the Board of County Road Commissioners and management of the Road Commission of Macomb County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Christina M. Kostiuk". The signature is written in a cursive style with a large, looped initial 'C'.

Christina M. Kostiuk

A handwritten signature in black ink that reads "Lisa C. Manetta". The signature is written in a cursive style with a large, looped initial 'L'.

Lisa C. Manetta

Client: **Road Commission of Macomb County**
Opinion Unit **Governmental Activities/Road Fund**
Y/E: **9/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

		Increase (Decrease)				
Ref. #	Description of Misstatement	Assets	Liabilities	Net Assets	Revenue	Expenses
Known Misstatements:						
	None					
Estimate Adjustments:						
	None					
Implied Adjustments:						
CI	To extrapolate testing differences noted between weighted average valuation of inventory and the first-in-first-out method	\$ 69,743				\$ (69,743)
		-	\$ -	\$ -	\$ -	-
	Combined effect	\$ 69,743	\$ -	\$ -	\$ -	\$ (69,743)

We believe the unrecorded possible adjustments listed above are immaterial to the Road Commission's financial statements, both individually and in aggregate.

Michelle Mykytiak, Finance Director

Robert Hoepfner, County Highway Engineer

Mary Beth Schenden, Accounting Supervisor